

City of Riverside
Statement of Net Assets
June 30, 2003
(amounts expressed in thousands)

	Governmental Activities	Business type Activities	Total
Assets:			
Cash and investments	\$ 205,357	\$ 135,099	\$ 340,456
Receivables (net of allowances for uncollectibles)	36,735	43,523	80,258
Inventories	2,415	0	2,415
Nuclear material inventory	0	1,150	1,150
Prepaid items	196	5,288	5,484
Deferred charges	0	34,688	34,688
Internal balances	(4,296)	4,296	0
Land and improvements held for resale	7,882	0	7,882
Restricted assets:			
Cash and cash equivalents	0	35,242	35,242
Cash and cash equivalents at fiscal agent	0	18,209	18,209
Investments at fiscal agent	20,994	47,391	68,385
Other	0	620	620
Capital leases receivable	27,925	0	27,925
Capital assets (net of accumulated depreciation)	481,547	651,665	1,133,212
Total assets	778,755	977,171	1,755,926
Liabilities			
Accounts payable and other current liabilities	14,314	20,054	34,368
Accrued interest payable	2,028	0	2,028
Deferred revenue	0	1,863	1,863
Deposits	18,200	3,262	21,462
Current liabilities payable from restricted assets	0	7,969	7,969
Claims and judgments payable	18,365	0	18,365
Noncurrent liabilities:			
Due within one year	13,701	18,380	32,081
Due in more than one year	144,132	379,695	523,827
Total liabilities	210,740	431,223	641,963
Net Assets			
Invested in capital assets, net of related debt	471,380	323,094	794,474
Restricted for:			
Capital projects	85,788	0	85,788
Debt service	6,567	37,678	44,245
Other purposes	14,507	3,191	17,698
Unrestricted	(10,227)	181,985	171,758
Total net assets	\$ 568,015	\$ 545,948	\$ 1,113,963

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Activities
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
Governmental activities:								
General government	\$ 48,843	\$ 10,687	\$ 22,675	\$ 8,939	\$ 23	\$ (27,893)		\$ (27,893)
Public safety	94,179	(5,210)	6,427	2,518	0	(80,024)		(80,024)
Highways and streets	18,433	(2,808)	20,867	139	1,578	6,959		6,959
Culture and recreation	31,905	(2,669)	8,304	1,120	543	(19,269)		(19,269)
Interest on long-term debt	7,696		0	0	0	(7,696)		(7,696)
Total governmental activities	<u>201,056</u>	<u>0</u>	<u>58,273</u>	<u>12,716</u>	<u>2,144</u>	<u>(127,923)</u>		<u>(127,923)</u>
Business type activities:								
Electric	186,917		204,293	0	0		\$ 17,376	17,376
Water	29,715		28,637	0	0		(1,078)	(1,078)
Sewer	20,053		21,172	1,088	4,976		7,183	7,183
Refuse	11,577		11,795	0	0		218	218
Airport	1,151		1,046	150	0		45	45
Transportation	2,110		170	2,425	0		485	485
Public parking	1,392		2,385	0	0		993	993
Total business type activities	<u>252,915</u>		<u>269,498</u>	<u>3,663</u>	<u>4,976</u>		<u>25,222</u>	<u>25,222</u>
Total	<u>\$ 453,971</u>		<u>\$ 327,771</u>	<u>\$ 16,379</u>	<u>\$ 7,120</u>	<u>(127,923)</u>	<u>25,222</u>	<u>(102,701)</u>

General revenues:

Taxes:			
Sales	41,691	0	41,691
Property	33,584	0	33,584
Utility users	19,928	0	19,928
Franchise	3,811	0	3,811
Other	2,967	0	2,967
Vehicle license fees	15,533	0	15,533
Grants and contributions not restricted to specific programs	0	15,972	15,972
Investment income	8,064	9,115	17,179
Miscellaneous	2,241	3,849	6,090
Transfers	18,218	(18,218)	0
Contributions	(2,800)	0	(2,800)
Total general revenues and transfers	<u>143,237</u>	<u>10,718</u>	<u>153,955</u>
Change in net assets	<u>15,314</u>	<u>35,940</u>	<u>51,254</u>
Net assets - beginning, as restated	<u>552,701</u>	<u>510,008</u>	<u>1,062,709</u>
Net assets - ending	<u>\$ 568,015</u>	<u>\$ 545,948</u>	<u>\$ 1,113,963</u>

The notes to the financial statements are an integral part of this statement.

Balance Sheet
Governmental Funds
June 30, 2003
(amounts expressed in thousands)

	General	Redevelopment Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and investments	\$ 85,232	\$ 2,572	\$ 97,596	\$ 185,400
Cash and investments at fiscal agent	0	5,947	15,047	20,994
Receivables (net)				
Interest	975	80	907	1,962
Property taxes	8,139	0	235	8,374
Sales taxes	8,011	0	0	8,011
Utility billed	492	0	0	492
Accounts	3,304	201	178	3,683
Intergovernmental	2,416	0	3,309	5,725
Notes	33	0	8,188	8,221
Capital lease receivable	0	27,925	0	27,925
Prepaid items	190	0	3	193
Due from other funds	8,860	0	930	9,790
Advances to other funds	3,715	229	102	4,046
Land and improvements held for resale	0	0	7,882	7,882
Total assets	<u>\$ 121,367</u>	<u>\$ 36,954</u>	<u>\$ 134,377</u>	<u>\$ 292,698</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 2,726	\$ 530	\$ 3,401	\$ 6,657
Accrued payroll	5,652	0	213	5,865
Retainage payable	169	0	812	981
Intergovernmental	128	0	0	128
Deferred revenue	9,991	27,994	9,596	47,581
Deposits	18,012	0	169	18,181
Due to other funds	50	0	1,795	1,845
Advances from other funds	2,901	36	13,295	16,232
Total liabilities	<u>39,629</u>	<u>28,560</u>	<u>29,281</u>	<u>97,470</u>
Fund balances:				
Reserved for:				
Encumbrances	10,424	0	10,302	20,726
Interfund receivable	3,715	0	102	3,817
Debt service	0	8,394	767	9,161
Prepaid items	190	0	3	193
Notes receivable	33	0	673	706
Land and improvements held for resale	0	0	7,882	7,882
Unreserved, designated for economic contingencies	22,500	0	0	22,500
Unreserved, designated for future operations	25,434	0	68,162	93,596
Unreserved, designated for liability insurance	6,400	0	0	6,400
Unreserved :				
General fund	13,042	0	0	13,042
Special revenue funds	0	0	3,667	3,667
Capital projects funds	0	0	12,306	12,306
Permanent fund	0	0	1,232	1,232
Total fund balances	<u>81,738</u>	<u>8,394</u>	<u>105,096</u>	<u>195,228</u>
Total liabilities and fund balances	<u>\$ 121,367</u>	<u>\$ 36,954</u>	<u>\$ 134,377</u>	<u>\$ 292,698</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2003
(amounts expressed in thousands)

Total fund balances - governmental funds		\$195,228
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds.		479,379
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Other long-term assets that do not meet the "availability" criteria for revenue recognition and therefore, are deferred in the funds.

Deferred Revenue-Governmental Funds	\$ 47,581	
Deferred Revenue-Internal Service Funds	59	47,640

Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds.

Bonds Payable	\$ (109,615)	
Accrued Interest Payable	(2,028)	
Certificates of Participation Payable	(4,650)	
Notes Payable	(11,447)	
Capital Leases Payable	(5,517)	
Compensated Absences	(26,083)	(159,340)

Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.

5,108

Net assets of governmental activities

\$568,015

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

	General	Redevelopment Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 82,062	\$ 12,944	\$ 7,280	\$ 102,286
Licenses and permits	7,243	0	7,151	14,394
Intergovernmental	19,897	0	23,932	43,829
Charges for services	8,872	0	6	8,878
Fines and forfeitures	1,903	0	192	2,095
Special assessments	3,906	0	2,418	6,324
Rental and investment income	3,478	2,186	5,591	11,255
Miscellaneous	1,926	619	2,497	5,042
Total revenues	<u>129,287</u>	<u>15,749</u>	<u>49,067</u>	<u>194,103</u>
Expenditures:				
Current:				
General government	15,555	283	6,193	22,031
Public safety	96,487	0	0	96,487
Highways and streets	12,034	0	0	12,034
Culture and recreation	21,087	0	6,492	27,579
Capital outlay	0	0	39,098	39,098
Debt service:				
Principal	0	2,694	1,160	3,854
Interest	0	7,371	414	7,785
Repayment of advances	0	616	0	616
Total expenditures	<u>145,163</u>	<u>10,964</u>	<u>53,357</u>	<u>209,484</u>
Revenues over (under) expenditures	<u>(15,876)</u>	<u>4,785</u>	<u>(4,290)</u>	<u>(15,381)</u>
Other financing sources (uses):				
Transfers in	20,215	2,925	13,062	36,202
Transfers out	(3,466)	(9,659)	(4,859)	(17,984)
Proceeds from issuance of long-term debt	0	0	750	750
Sale of capital assets	1,311	0	3	1,314
Advances from other funds	0	388	(307)	81
Total other financing sources (uses)	<u>18,060</u>	<u>(6,346)</u>	<u>8,649</u>	<u>20,363</u>
Net change in fund balances	<u>2,184</u>	<u>(1,561)</u>	<u>4,359</u>	<u>4,982</u>
Fund balances, as previously reported	74,776	9,955	100,737	185,468
Restatement	4,778	0	0	4,778
Fund balances, beginning, as restated	<u>79,554</u>	<u>9,955</u>	<u>100,737</u>	<u>190,246</u>
Fund balances, ending	<u>\$ 81,738</u>	<u>\$ 8,394</u>	<u>\$ 105,096</u>	<u>\$ 195,228</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2003
 (amounts expressed in thousands)

Net change in fund balances-total governmental funds \$4,982

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, as listed below:

Capital Outlay	\$ 22,232	
Depreciation Expense	<u>(16,721)</u>	5,511

Revenues in the statement of activities that do not meet the "availability" criteria for revenue recognition and therefore are not reported as revenue in the funds.		561
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The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is listed below:

Principal repayments	\$ 3,854	
Interest payments	89	
Issuance of notes payable	(750)	
Capital lease financing	<u>962</u>	4,155

Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

		<u>105</u>
Change in net assets of governmental activities		<u><u>\$ 15,314</u></u>

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance with Final Budget		Budgeted Amounts		Actual	Favorable (Unfavorable) Variance with Final Budget
	Original	Final	Amounts			Original	Final	Amounts	
Revenues:					Public safety:				
Taxes	\$ 75,490	\$ 75,490	\$ 82,062	\$ 6,572	Police	62,566	66,170	62,723	3,447
Licenses and permits	5,599	5,599	7,243	1,644	Fire	30,047	31,213	27,124	4,089
Intergovernmental	23,988	29,329	19,897	(9,432)	Animal regulation	2,219	2,219	1,259	960
Charges for services	6,193	6,362	8,872	2,510	Building and zoning inspection	1,808	1,858	1,810	48
Fines and forfeitures	1,335	1,335	1,903	568	Street lighting	3,584	3,584	3,571	13
Special assessments	3,530	3,880	3,906	26					
Rental and investment income	3,678	3,788	3,478	(310)	Total public safety	100,224	105,044	96,487	8,557
Miscellaneous	1,217	1,977	1,926	(51)					
					Highways and streets	13,577	14,020	12,034	1,986
Total revenues	121,030	127,760	129,287	1,527	Culture and recreation	28,817	31,879	21,087	10,792
Expenditures:									
General government:					Total expenditures	174,225	202,821	145,163	57,658
Mayor	315	327	295	32	Deficiency of revenue under expenditures	(53,195)	(75,061)	(15,876)	59,185
Council	79	159	120	39					
Manager	1,487	1,536	1,132	404	Other financing sources (uses):				
Attorney	332	328	(122)	450	Transfers in	19,649	20,110	20,215	105
Clerk	487	487	120	367	Transfers out	3,006	3,314	(3,466)	(6,780)
Planning	4,721	5,770	4,258	1,512	Sales of capital assets	35	1,235	1,311	76
Human Resources	3,170	3,294	2,988	306					
General Services	10,197	28,271	8,111	20,160	Total other financing sources (uses)	22,690	24,659	18,060	(6,599)
Finance	8,200	7,889	5,319	2,570					
Information System	12,836	13,473	10,547	2,926	Net change in fund balances	(30,505)	(50,402)	2,184	52,586
Non-departmental	16,080	16,641	9,411	7,230					
					Fund balance, as previously reported	74,776	74,776	74,776	0
Sub-total	57,904	78,175	42,179	35,996	Restatement	0	0	4,778	4,778
Allocated expenditures	(26,297)	(26,297)	(26,624)	327	Fund balance, beginning, as restated	74,776	74,776	79,554	4,778
Total general government	31,607	51,878	15,555	36,323					
				continued	Fund balance, ending	\$ 44,271	\$ 24,374	\$ 81,738	\$ 57,364

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Assets						
Current assets:						
Cash and investments	\$ 47,244	\$ 20,320	\$ 63,742	\$ 3,793	\$ 135,099	\$ 19,957
Receivables (net of allowances for uncollectibles)						
Interest	613	231	653	70	1,567	192
Utility billed	10,886	1,391	625	357	13,259	0
Utility unbilled	9,282	1,638	777	548	12,245	0
Accounts	11,082	731	1,757	187	13,757	0
Intergovernmental	586	156	184	1,105	2,031	75
Notes	0	0	664	0	664	0
Nuclear materials inventory	1,150	0	0	0	1,150	0
Inventory	0	0	0	0	0	2,415
Prepaid items	5,278	3	0	7	5,288	3
Due from other funds	50	0	0	0	50	0
Restricted assets:						
Cash and cash equivalents	3,010	0	3,709	3,191	9,910	0
Cash and investments at fiscal agent	48,706	16,894	0	0	65,600	0
Revenue bond current debt service account	13,588	4,632	0	0	18,220	0
Revenue bond future debt service account	7,112	0	0	0	7,112	0
Other	620	0	0	0	620	0
Total current assets	159,207	45,996	72,111	9,258	286,572	22,642
Non-current assets:						
Deferred charges	27,704	1,405	227	5,352	34,688	0
Advances to other funds	21	62	12,199	0	12,282	3,605
Capital assets:						
Land	5,839	14,510	3,048	9,163	32,560	0
Buildings	12,205	12,439	163,039	4,510	192,193	0
Accumulated depreciation-buildings	(2,541)	(1,770)	(49,346)	(2,293)	(55,950)	0
Improvements other than buildings	424,682	257,051	32,239	6,899	720,871	0
Accumulated depreciation-improvements other than buildings	(188,232)	(81,387)	(6,671)	(2,706)	(278,996)	0
Machinery and equipment	13,073	6,506	5,445	9,999	35,023	8,803
Accumulated depreciation-machinery and equipment	(10,169)	(5,046)	(4,330)	(6,381)	(25,926)	(6,635)
Construction in progress	17,462	9,802	0	4,626	31,890	0
Total non-current assets	300,044	213,572	155,850	29,169	698,635	5,773
Total assets	459,251	259,568	227,961	38,427	985,207	28,415

continued

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Liabilities						
Current liabilities:						
Accounts payable	8,587	865	485	794	10,731	596
Accrued payroll	4,608	1,992	1,338	886	8,824	587
Retainage payable	307	152	0	0	459	21
Intergovernmental	39	1	0	0	40	0
Claims and judgments	0	0	0	0	0	18,365
Deferred revenue	803	278	277	505	1,863	59
Deposits	2,870	392	0	0	3,262	19
Due to other funds	0	0	0	4,335	4,335	3,660
Capital leases-current	0	0	42	17	59	0
Water stock acquisitions-current	0	150	0	0	150	0
Total current liabilities	17,214	3,830	2,142	6,537	29,723	23,307
Current liabilities payable from restricted assets:						
Revenue bonds	10,780	4,010	2,800	0	17,590	0
Accrued interest	2,808	622	909	0	4,339	0
Deferred revenue	3,630	0	0	0	3,630	0
Total current liabilities payable from restricted assets	17,218	4,632	3,709	0	25,559	0
Noncurrent liabilities:						
Revenue bonds	221,921	68,428	34,619	0	324,968	0
Notes payable	0	0	11,524	0	11,524	0
Capital leases	0	0	201	238	439	0
Decommissioning liability	38,144	0	0	0	38,144	0
Water stock acquisitions	0	933	0	0	933	0
Advances from other funds	0	0	0	3,701	3,701	0
Landfill capping	0	0	0	4,268	4,268	0
Total noncurrent liabilities	260,065	69,361	46,344	8,207	383,977	0
Total liabilities	294,497	77,823	52,195	14,744	439,259	23,307
Net Assets						
Invested in capital assets, net of related debt	50,015	157,475	94,237	21,367	323,094	2,168
Restricted for:						
Debt service	25,786	8,417	3,475	0	37,678	0
Other purposes	0	0	0	3,191	3,191	0
Unrestricted	88,953	15,853	78,054	(875)	181,985	2,940
Total net assets	\$ 164,754	\$ 181,745	\$ 175,766	\$ 23,683	\$ 545,948	\$ 5,108

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Operating revenues:						
Charges for services	\$ 204,293	\$ 28,637	\$ 21,172	\$ 15,396	\$ 269,498	\$ 14,930
Operating expenses:						
Personal services	11,118	5,457	5,664	4,025	26,264	2,445
Contractual services	2,095	1,100	1,045	3,490	7,730	106
Maintenance and operation	137,809	6,130	3,609	4,806	152,354	424
General	10,172	6,678	2,076	1,846	20,772	1,801
Materials and supplies	381	313	769	534	1,997	85
Insurance	389	250	270	297	1,206	10,690
Depreciation and amortization	13,516	5,554	4,405	1,056	24,531	719
Total operating expenses	175,480	25,482	17,838	16,054	234,854	16,270
Operating income (loss)	28,813	3,155	3,334	(658)	34,644	(1,340)
Nonoperating income (expenses):						
Operating grants	0	0	1,088	2,575	3,663	0
Interest income	4,286	1,763	2,838	228	9,115	900
Other	1,306	1,670	236	124	3,336	530
Gain on retirement of capital assets	387	65	3	58	513	15
Capital improvement fees	0	0	4,976	0	4,976	0
Interest expense and fiscal charges	(11,437)	(4,233)	(2,215)	(176)	(18,061)	0
Total nonoperating income (expenses)	(5,458)	(735)	6,926	2,809	3,542	1,445
Income before transfers and capital contributions	23,355	2,420	10,260	2,151	38,186	105
Capital contributions	4,360	8,405	0	3,207	15,972	0
Transfers in	0	0	51	246	297	0
Transfers out	(15,333)	(3,182)	0	0	(18,515)	0
Change in net assets	12,382	7,643	10,311	5,604	35,940	105
Total net assets - beginning	152,372	174,102	165,455	18,079	510,008	5,003
Total net assets - ending	\$ 164,754	\$ 181,745	\$ 175,766	\$ 23,683	\$ 545,948	\$ 5,108

The notes to the financial statements are an integral part of this statement.

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Cash flows from operating activities:						
Cash received from customers and users	\$ 197,139	\$ 28,776	\$ 21,247	\$ 14,855	\$ 262,017	\$ 14,938
Cash paid to employees for services	(11,194)	(5,550)	(5,764)	(4,094)	(26,602)	(2,375)
Cash paid to other suppliers of goods or services	(143,065)	(14,819)	(7,426)	(9,510)	(174,820)	(11,746)
Other receipts	1,306	1,100	(493)	3,438	5,351	70
Net cash provided by operating activities	44,186	9,507	7,564	4,689	65,946	887
Cash flows from noncapital financing activities:						
Transfers in	0	0	51	246	297	0
Transfers out	(15,333)	(3,182)	0	0	(18,515)	0
Operating grants	0	0	1,088	1,973	3,061	0
Non-operating revenue	0	570	0	0	570	0
Net cash provided (used) by noncapital financing activities	(15,333)	(2,612)	1,139	2,219	(14,587)	0
Cash flows from capital and related financing activities:						
Purchase of fixed assets	(19,870)	(20,945)	(2,700)	(6,041)	(49,556)	(982)
Purchase of nuclear fuel	(903)	0	0	0	(903)	0
Proceeds from the sale of fixed assets	567	81	3	58	709	15
Proceeds from long-term loans	0	0	5,375	0	5,375	0
Principal paid on long-term obligations	(7,850)	(3,895)	(3,585)	(16)	(15,346)	0
Interest paid on long-term obligations	(11,206)	(2,889)	(2,229)	(176)	(16,500)	0
Capital improvement fees	0	0	4,976	0	4,976	0
Contributed capital	2,254	4,919	0	155	7,328	0
Net cash provided (used) for capital and related financing activities	(37,008)	(22,729)	1,840	(6,020)	(63,917)	(967)
Cash flows from investing activities:						
Purchase of investments	(3,235)	(33)	0	0	(3,268)	0
Income from investments	4,275	1,867	2,723	231	9,096	899
Advances to other funds	0	0	0	(1,236)	(1,236)	0
Payments received on interfund payables	0	22	2,052	0	2,074	486
Net cash provided (used) by investing activities	1,040	1,856	4,775	(1,005)	6,666	1,385
Net change in cash and cash equivalents	(7,115)	(13,978)	15,318	(117)	(5,892)	1,305
Cash and cash equivalents, beginning (including \$38,515 for Electric and \$22,784 for Water in restricted accounts)	83,545	51,663	52,133	7,101	194,442	18,652
Cash and cash equivalents, ending (including \$29,186 for Electric and \$17,365 for Water in restricted accounts)	\$ 76,430	\$ 37,685	\$ 67,451	\$ 6,984	\$ 188,550	\$ 19,957
Schedule of noncash financing and investing activities:						
Contribution in aid	\$ 2,106	\$ 3,486	\$ 0	\$ 3,052	\$ 8,644	\$ 0

continued

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

	continued					
						Governmental
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Activities- Internal Service Funds
Reconciliation of operating income (loss) to net cash provided						
(used) by operating activities:						
Operating Income	\$ 28,813	\$ 3,155	\$ 3,334	\$ (658)	\$ 34,644	\$ (1,340)
Other receipts	1,306	1,100	236	124	2,766	530
Adjustments to reconcile operating income to						
net cash provided (used) by operating activities:						
Depreciation and amortization	13,516	5,554	4,405	1,056	24,531	719
Amortization (burn) of nuclear fuel	4,514	0	0	0	4,514	0
(Increase) decrease in utility billed receivable	(276)	124	29	27	(96)	0
(Increase) in utility unbilled receivable	(1,133)	(59)	(25)	(101)	(1,318)	0
(Increase) decrease in accounts receivable	(5,013)	206	253	(98)	(4,652)	3
(Increase) decrease in intergovernmental receivable	(490)	(137)	(184)	(360)	(1,171)	12
Decrease in notes receivable	0	0	310	0	310	0
(Increase) decrease in prepaid items	(907)	(3)	7	(6)	(909)	(3)
(Increase) in nuclear materials inventory	(53)	0	0	0	(53)	0
(Increase) in inventory	0	0	0	0	0	(201)
Increase (decrease) in accounts payable	1,842	(321)	338	172	2,031	102
Increase (decrease) in accrued payroll	(76)	(93)	(100)	(69)	(338)	70
Increase (decrease) in retainage payable	(704)	(161)	0	0	(865)	21
(Decrease) in intergovernmental	(50)	(8)	0	0	(58)	0
Increase (decrease) in deferred revenue	(149)	77	(1,039)	363	(748)	(401)
Increase in deposits	(243)	73	0	0	(170)	14
Increase (decrease) in due to other funds	0	0	0	4,335	4,335	(252)
Increase in claims and judgments	0	0	0	0	0	1,613
Increase in decommissioning liability	3,289	0	0	0	3,289	0
(Decrease) in landfill capping	0	0	0	(96)	(96)	0
Net cash provided by operating activities	<u>\$ 44,186</u>	<u>\$ 9,507</u>	<u>\$ 7,564</u>	<u>\$ 4,689</u>	<u>\$ 65,946</u>	<u>\$ 887</u>

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Fiduciary Net Assets
Fiduciary Fund-Agency Fund
June 30, 2003
(amounts expressed in thousands)

	<u>Assessment Districts</u>
Assets:	
Cash and investments	\$ 7,703
Cash and investments at fiscal agent	8,283
Interest receivable	76
Property tax receivables	252
Total assets	<u>\$ 16,314</u>
Liabilities:	
Accounts payable	\$ 1
Deposits	10
Held for bond holders	16,303
Total liabilities	<u>\$ 16,314</u>

The notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are legally separate entities. In substance, they are part of the City's operations and their data is combined with that of the City's. The City has no component units which meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Redevelopment Agency (Redevelopment Agency) was established in 1971 by the City. The Redevelopment Agency's primary purpose is to eliminate blighted areas in the City by encouraging commercial development. City Council members serve as the Redevelopment Agency's directors and have full accountability for fiscal matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. The purpose of the Public Financing Authority is to provide financing for public capital improvements to the City or the Redevelopment Agency. City Council members serve as the Public Financing Authority's directors and have full accountability for fiscal matters.

Parking Authority of the City of Riverside (Parking Authority) was established in 1972 to provide parking facilities throughout the City. The City Council is the governing body of the Parking Authority and ex-officio board members include the Mayor, Mayor Pro-Tempore, City Clerk, City Treasurer and the City Attorney.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of

the City. The Directors are appointed by the City Council and receive no compensation.

Riverside Civic Center Authority (Civic Center Authority) was created in 1971 by a Joint Exercise of Powers Agreement between the City and Riverside County for the purpose of providing financing for the construction of City Hall and the Riverside Convention Center. The Civic Center Authority is governed by a five-member commission, three appointed by the City and two by the County. The Civic Center Authority's property is leased to the City and, upon termination of the Agreement, all property will automatically vest with the City. At the present, all outstanding debt has been retired and dissolution is underway.

Complete financial statements for each of the individual component units except the Riverside Municipal Improvement Corporation (which does not generate a financial statement) may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and become an enforceable lien on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to be measurable and available only when cash is received by the government, and are therefore not susceptible to accrual.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Redevelopment Agency's debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Redevelopment Agency.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for the central stores, central garage, and the three self-insured risks of workers compensation, unemployment and public liability on a cost reimbursement basis.

The agency fund is used to account for no-commitment debt issued to finance various improvements within the city.

Pronouncements regarding accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Significant interfund activity has been eliminated from the government-wide financial statements with the exception of charges between the City's electric, water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Investments

The City values its cash and investments in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value. All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

E. Restricted Cash and Investments

Certain proceeds of Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Additionally, unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Land and Improvements Held for Resale

Land and improvements held for resale are generally acquired under Developer Disposition Agreements in the normal course of Redevelopment Agency activity. The Developer Disposition Agreements provide for transfer of property to developers after certain redevelopment obligations have been fulfilled. This property is carried at cost until an event occurs to indicate a lower net realizable value.

G. Inventory

Supplies are valued at cost using the first-in/first-out (FIFO) method. Costs are charged to user departments when consumed rather than when purchased.

H. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

I. Capital Assets and Nuclear Fuel

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets other than land are depreciated using the straight line method.

Nuclear Fuel

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one mill per kilowatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Company, on a quarterly basis.

J. Compensated Absences

City employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years' vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

City employees generally receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

K. Long-Term Obligations

Long-Term Debt

In the government-wide financial statements and proprietary fund-types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount

of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant.

Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$38,144 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by Southern California Edison and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately \$1,600 per year to fund this obligation. Decommissioning is expected to commence around the year 2014.

L. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the appropriate internal service fund.

M. Fund Equity

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Designated fund balances represent amounts identified by management or the governing board for the future use of financial resources.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Interfund Transactions

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions which constitute reimbursements are eliminated in the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as interfund receivables/payables and, for governmental fund types, are equally offset by a fund balance reserve to indicate that the receivable does not constitute available expendable financial resources. Interfund payables also include accrued interest which has been off-set by deferred revenue.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

P. Deferred Revenues

Governmental and proprietary funds report deferred revenue on their balance sheets. Deferred revenues arise in governmental funds when a potential revenue does not meet both the "measurable" and "available" criteria for

recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The majority of the City's governmental fund deferred revenue for June 30, 2003 relates to unearned revenue on a capital lease. See Note 4.

Q. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and is delinquent on April 10. Property taxes receivable represent current and prior years' uncollected tax levies, adjusted for uncollectable amounts.

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the collectability of its receivables, the valuation of property held for resale, the useful lives of capital assets and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

S. Implementation of new accounting principles

Government Accounting Standards Board (GASB) issued Statement No. 40, Deposit and Investment Risk Disclosures. The Statement amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, to address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, the Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The City will be required to implement this Statement for the fiscal year ending June 30, 2005.

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because payments are specified by debt indenture provisions. The permanent fund is not budgeted.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget which includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings.

The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund.

3. Deposits and Investments

Cash and investments at fiscal year end consist of the following:

Investments	\$346,894
Cash and investments at fiscal agent	<u>94,877</u>
	441,771
Cash	<u>36,507</u>
	<u>\$478,278</u>

The amounts are reflected in the government-wide statement of net assets:

Cash and investments	\$340,456
Restricted cash and cash equivalents	35,242
Restricted cash and cash equivalents at fiscal agent	18,209
Restricted investments at fiscal agent	<u>68,385</u>
Total per statement of net assets	462,292
Agency cash and investments	<u>15,986</u>
	<u>\$478,278</u>

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end cash balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. At year end, cash deposits in the City's bank accounts had a general ledger balance of \$17,623; actual cash in the account was \$1,662 due to a timing difference for deposits in transit and other outstanding items. The bank balance was covered by federal depository insurance for the first \$100 or by collateral held in the pledging bank's trust department in the name of the City. At June 30, 2003, the City maintained \$83 in operating cash in the City's vault.

Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

Securities of the U.S. Government, or its agencies
Small Business Administration Loans
Negotiable Certificates of Deposit
Bankers Acceptances
Commercial Paper of "prime" quality
Local Agency Investment Fund (State Pool) Deposits
Passbook Savings Account Demand Deposits
Repurchase Agreements
Mutual Funds
Medium-Term Corporate Notes

Credit Risk, Carrying Amount and Market Value of Investments

Investments are classified in three categories of custodial credit risk as follows: Category 1 - insured or collateralized with securities held by the City or its agent in the City's name; Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; Category 3 - uncollateralized.

All City investments subject to custodial credit risk are insured or registered, or securities held by the City or its agent in the City's name (category 1).

The City participates in a voluntary external investment pool, LAIF, which is managed by the State Treasurer. LAIF has oversight provided by the Local Agency Investment Advisory Board. The Board consists of five members as designated by state statute. The Chairman of the Board is the State Treasurer or his designated representative.

Investment in pools managed by other governments or in mutual funds are not required to be categorized by custodial credit risk.

Pooled investments by custodial credit risk at fair value consisted of the following at June 30, 2003:

Categorized:

U.S. Federal Agency Obligations:	
Federal National Mortgage Association	\$ 45,427
Federal Home Loan Bank	86,528
Federal Home Loan Mortgage Corporation	69,070
Federal Farm Credit Bank	10,671
Medium Term Notes	69,320
Taxable Municipal Notes	4,416
Investments at Fiscal Agent:	
Federal National Mortgage Association	1,255
Federal Home Loan Bank	<u>41,248</u>
	<u>327,935</u>

Uncategorized:

State of California Local Agency Investment Fund (1)(2)	61,462
Investments at Fiscal Agent (2):	
Money Market Funds	29,202
Investment Agreements	21,296
Cash	<u>1,876</u>
	<u>113,836</u>

Total Investments \$441,771

(1) Not subject to categorization.

(2) Fair value of the City's position in the pool is not the same as the value of its pool shares.

The majority of the City's investment instruments are highly rated Federal agency or corporate securities with minimal credit risk. It is the City's intention to hold all securities to maturity because the portfolio is highly liquid and well diversified.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

4. Capital Lease Receivable

The Redevelopment Agency has a direct financing lease arrangement with the State of California (the State) for a twelve story office building. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term. The lease calls for semi-annual payments equivalent to the debt service owed by the Redevelopment Agency on the lease revenue bonds issued for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

2004	\$ 2,199
2005	2,221
2006	2,249
2007	2,273
2008	2,298
Thereafter	<u>43,669</u>
Total Due	54,909
Less: amount applicable to interest	<u>(26,984)</u>
Total capital lease receivable	<u>\$27,925</u>

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2003.

Governmental activities:	Beginning Balance, as Restated	Additions	Deletions/ Transfers	Ending Balance
Undepreciable Capital Assets:				
Land	\$112,067	\$ -	\$ (2,102)	\$109,965
Construction in progress	4,867	12,550	(1,003)	16,414
Depreciable Capital Assets:				
Buildings and Improvements	79,892	2,772	(9,973)	72,691
Improvements				
other than Buildings	40,194	347	(325)	40,216
Machinery and Equipment	51,006	3,067	(2,245)	51,828
Infrastructure	<u>396,507</u>	<u>15,588</u>	-	<u>412,095</u>
Subtotal	<u>684,533</u>	<u>34,324</u>	<u>(15,648)</u>	<u>703,209</u>
Less accumulated depreciation for:				
Buildings and Improvements	(24,659)	(1,429)	2,154	(23,934)
Improvements				
other than Buildings	(21,530)	(1,642)	325	(22,847)
Machinery and Equipment	(34,995)	(4,910)	2,060	(37,845)
Infrastructure	<u>(127,576)</u>	<u>(9,460)</u>	-	<u>(137,036)</u>
Subtotal	<u>(208,760)</u>	<u>(17,441)</u>	<u>4,539</u>	<u>(221,662)</u>
Governmental activities capital assets, net	<u>\$ 475,773</u>	<u>\$ 16,882</u>	<u>\$(11,109)</u>	<u>\$ 481,547</u>

Business type activities:	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Undepreciable Capital Assets:				
Land	\$ 30,425	\$ 2,135	\$ -	\$ 32,560
Construction in progress	70,644	61,487	(100,241)	31,890
Depreciable Capital Assets:				
Buildings and Improvements	188,410	3,783	-	192,193
Improvements				
other than Buildings	631,261	90,058	(448)	720,871
Machinery and Equipment	<u>32,576</u>	<u>2,877</u>	<u>(430)</u>	<u>35,023</u>
Subtotal	<u>953,316</u>	<u>160,340</u>	<u>(101,119)</u>	<u>1,012,537</u>
Less accumulated depreciation for:				
Buildings and Improvements	(49,971)	(4,403)	(1,576)	(55,950)
Improvements				
other than Buildings	(261,549)	(17,375)	(72)	(278,996)
Machinery and Equipment	<u>(23,533)</u>	<u>(2,555)</u>	<u>162</u>	<u>(25,926)</u>
Subtotal	<u>(335,053)</u>	<u>(24,333)</u>	<u>(1,486)</u>	<u>(360,872)</u>
Business type activities capital assets, net	<u>\$ 618,263</u>	<u>\$136,007</u>	<u>\$(102,605)</u>	<u>\$ 651,665</u>

Estimated useful lives used to compute depreciation are as follows:

Buildings and Improvements	30-50 years
Improvements other than Buildings	20-99 years
Machinery and Equipment	3-15 years
Infrastructure	20-100 years

Depreciation expense was charged to functions of the government as follows:

Governmental activities:	
General government	\$ 1,565
Public Safety	3,467
Highways and streets, including depreciation of general infrastructure assets	9,987
Culture and recreation	<u>2,422</u>
Total depreciation expense – governmental activities	<u>\$17,441</u>

Business type activities:

Electric	\$13,516
Water	5,554
Sewer	4,405
Refuse	452
Special Transportation	245
Airport	238
Public Parking	<u>121</u>
Total depreciation and amortization expense - business type activities	<u>\$24,531</u>

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. Internal service funds have been established to account for and finance the uninsured risks of loss. Property insurance coverage has a limit of \$25,000, with a deductible of \$250. Earthquake and flood coverage has a deductible of 5% for earthquake and 2% for flood and a \$15,000 limit. Workers' compensation insurance coverage has a limit of \$25,000 with a deductible of \$3,000 per occurrence. There were no claims settled during fiscal year 2003 above the self-insured amounts. There was a single claim settled in 2002 above the self-insured amount, related to a worker's compensation claim. At June 30, 2003, the City was self-insured for general liability up to \$750 and carried a commercial insurance policy for claims in excess of the self-insured amount up to \$15,000 per occurrence. As of July 1, 2003, due to current market conditions in obtaining commercial general liability insurance, the City has opted to become fully self-insured for general liability claims. To mitigate the risk associated with potential large claims, the City has designated \$6,400 of the unreserved general fund balance at June 30, 2003.

All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service Funds in the fund financial statements.

Changes in the funds' claims liability amounts in fiscal years 2003 and 2002 are:

	Workers' Compensation	Unemployment Compensation	Public Liability	Total
Balance, July 1, 2001	\$ 8,293	\$ 79	\$ 6,062	\$14,434
Add:				
Claims incurred	2,732	-	3,348	6,080
Less:				
Claim Payments	<u>(1,538)</u>	<u>(3)</u>	<u>(2,221)</u>	<u>(3,762)</u>
Balance, June 30, 2002	9,487	76	7,189	16,752
Add:				
Claims estimate	3,276	-	4,119	7,395
Less:				
Claim Payments	<u>(2,410)</u>	<u>-</u>	<u>(3,372)</u>	<u>(5,782)</u>
Balance, June 30, 2003	<u>\$10,353</u>	<u>\$ 76</u>	<u>\$ 7,936</u>	<u>\$18,365</u>

7. Long-Term Obligations

Changes in Long-Term Obligations: The following is a summary of changes in long-term obligations during the fiscal year:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency bonds	\$111,880	\$ -	\$ (2,265)	\$109,615	\$ 2,400
Lease Revenue Bonds:					
Parking Authority	525	-	(525)	-	-
Riverside Municipal Improvements Corporation					
Certificates of Deposit	5,150	-	(500)	4,650	530
Assessment bonds	135	-	(135)	-	-
Capital leases	6,430	-	(913)	5,517	1,004
Notes Payable	11,096	750	(399)	11,447	353
Compensated Absences	<u>26,630</u>	<u>10,107</u>	<u>(10,133)</u>	<u>26,604</u>	<u>9,348</u>
Total	<u>\$161,846</u>	<u>\$10,857</u>	<u>\$(14,870)</u>	<u>\$157,833</u>	<u>\$13,701</u>

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

						<u>Principal Outstanding</u>
Business type activities:						
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	
Revenue Bonds	\$355,621	\$ -	\$(13,062)	\$342,559	\$17,590	\$ 98,730
Loans Payable	6,966	5,374	(816)	11,524	580	
Capital Leases	571	-	(73)	498	60	
Water Stock						
Acquisition						
Rights	1,121	-	(38)	1,083	150	47,215
Total	<u>\$364,279</u>	<u>\$5,374</u>	<u>\$(13,989)</u>	<u>\$355,664</u>	<u>\$18,380</u>	
Advance Refundings:						
In prior years the City and the Redevelopment Agency defeased certain Revenue and Tax Allocation Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's or the Redevelopment Agency's financial statements. At fiscal year end \$4,330 of bonds outstanding are considered defeased.						
<u>Long-Term Obligations at June 30, 2003:</u>						
Revenue Bonds:						
						<u>Principal Outstanding</u>
<u>Electric</u>						
\$118,550 1993 Electric Revenue Refunding Bonds:						
\$92,245 serial bonds, 4.10% to 8.25%, due in annual installments from \$5,120 to \$8,005 through October 1, 2010; \$26,305 term bonds, 5.0%, due October 1, 2013						\$81,380
\$4,100 1994 Electric Revenue Bonds (FARECAL Pool):						
\$2,105 serialbonds,4.75% to 6.0%, due in annual installments from \$115 to \$220 through June 1, 2010;						
\$1,995 term bonds, 6.0%, due June 1, 2017						3,310
\$98,730 1998 Electric Revenue Bonds (partial refunding issue): \$63,165 serial bonds, 4.25% to 5.38%, due in annual installments from \$4,650 to \$7,085 through October 1, 2013; \$35,565 term bonds, 5%, due October 1, 2022						\$ 98,730
\$47,215 2001 Electric Revenue Bonds; 2.9% to 5.25%, due in annual installments from \$2,855 to \$4,750 through October 1, 2016.						47,215
Subtotal						230,635
Add: Unamortized bond premium						2,066
						<u>\$232,701</u>
<u>Water</u>						
\$69,840 1991 Water Revenue Bonds: \$25,050 serial bonds, 4.25% to 9.0%, due in annual installments from \$2,260 to \$3,100 through October 1, 2002; \$25,900 Capital Appreciation bonds 6.65% to 7.0%, due in annual installments from \$3,235 to \$3,240 from October 1, 2003 to October 1, 2010; (portion not refunded)						\$ 25,900
\$4,710 1994 Water Revenue Bonds (FARECAL Pool); \$2,420 serial bonds, 4.75% to 5.90%, due in annual installments from \$135 to \$255 through June 1, 2010; \$2,290 term bonds, 6.0% due June 1, 2017						3,795
\$30,965 1998 Water Revenue Bonds, (partial refunding issue): \$15,055 serial bonds, 4.0% to 5.0%, due in annual installments from \$205 to \$4,055 through October 1, 2013; \$15,910 term bonds, 5%, due October 1, 2027						29,720
\$20,000 2001 Water Revenue Bonds; 2.6% to 5.0%, due in annual installments from \$345 to \$1,230 through October 1, 2031						19,655
Subtotal						79,070
Less: Unamortized bond discount						(6,632)
						<u>\$72,438</u>

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

	Principal Outstanding
Sewer	
\$49,145 1993 Sewer Revenue Refunding Serial Bonds: 4.0% to 7.0%, due in annual installments from \$335 to \$4,745 through August 1, 2012	\$ 37,040
Add: Unamortized bond premium	380
	<u>37,420</u>
 Total Revenue Bonds	 <u>\$342,559</u>

Remaining revenue bond debt service payments will be made from revenues of the Electric, Water, and Sewer Utility Enterprise Funds. Annual debt service requirements to maturity are as follows:

Fiscal Year	Electric Utility Fund			Water Utility Fund		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 10,780	\$ 11,123	\$ 21,903	\$ 4,010	\$ 2,628	\$ 6,638
2005	14,140	10,579	24,719	4,045	2,597	6,642
2006	14,775	9,940	24,715	4,075	2,565	6,640
2007	15,475	9,241	24,716	4,115	2,530	6,645
2008	16,225	8,495	24,720	4,155	2,492	6,647
2009-2013	89,715	29,379	119,094	21,775	11,415	33,190
2014-2018	52,475	9,187	61,662	17,940	6,461	24,401
2019-2023	17,050	2,216	19,266	6,300	3,981	10,281
2024-2028	-	-	-	8,080	2,194	10,274
2029-2032	-	-	-	4,575	472	5,047
Premium						
(Discount)	2,066	-	2,066	(6,632)	-	(6,632)
Total	<u>\$232,701</u>	<u>\$90,162</u>	<u>\$322,863</u>	<u>\$72,438</u>	<u>\$37,335</u>	<u>\$109,773</u>

Fiscal Year	Sewer Utility fund		
	Principal	Interest	Total
2004	\$ 2,800	\$ 2,097	\$ 4,897
2005	2,970	1,937	4,907
2006	3,120	1,780	4,900
2007	3,285	1,584	4,869
2008	3,515	1,346	4,861
2009-2013	21,350	2,950	24,300
Premium	380	-	380
Total	<u>\$37,420</u>	<u>\$11,695</u>	<u>\$49,115</u>

Redevelopment Agency Bonds:

\$24,810 1994 Downtown/Airport Project Area, Series A Tax Exempt bonds, \$4,085 serial bonds, 4.60% to 6.00%, due in annual installments from \$90 to \$610 through October 1, 2009; \$5,250 term bonds, 6.00%, due in annual installments from \$675 to \$1,090 through October 1, 2015; \$13,140 term bonds, 6.375%, due in annual installments from \$1,190 to \$2,155 through October 1, 2023; \$2,335 term bonds, 6.50%, due a single installment on October 1, 2024

\$23,815

\$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas: \$1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from \$100 to \$145 through February 1, 2003; and \$4,175 term bonds, 8.0%, due in annual installments from \$155 to \$450 through February 1, 2018 (portion not refunded)

595

\$31,600 1993 Tax Allocation Refunding Bonds, Downtown/Airport Project Area: \$6,975 serial bonds 4.0% to 5.40%, due in annual installments from \$155 to \$1,015 through August 1, 2008; and \$24,190 term bonds, 5.625%, due in annual installments from \$1,070 to \$2,300 through August 1, 2023

29,575

\$4,305 1994 Downtown/Airport Project Area, Series B Taxable bonds: \$45 term bonds, 7.50%, due in annual installments from \$5 to \$25 through October 1, 1999; \$295 term bonds, 8.30%, due in annual installments from \$35 to \$75 through October 1, 2004; \$470 term bonds, 8.65%, due in annual installments from \$80 to \$110 through October 1, 2009; \$3,495 term bonds, 8.80%, due in annual installments from \$120 to \$395 through October 1, 2024

4,110

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

	<u>Principal Outstanding</u>	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$12,090 1994 Public Financing Authority, Tax Allocation Refunding Bonds, Multiple Project Areas issued through the Association of Bay Area Government Bond Pool: 4.7% to 6.4%, due in annual installments from \$175 to \$840 through December 1, 2024	\$10,435	2004	\$ 2,400	\$ 6,086	\$ 8,486
		2005	2,525	5,969	8,494
		2006	2,690	5,843	8,533
		2007	2,835	5,705	8,540
		2008	3,015	5,556	8,571
		2009-2013	18,160	25,064	43,224
		2014-2018	24,700	19,125	43,825
		2019-2023	33,330	10,813	44,143
		2024-2028	19,960	1,791	21,751
		Total	<u>\$109,615</u>	<u>\$85,952</u>	<u>\$195,567</u>
\$17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A: 3.4% to 4.7% due in annual installments from \$40 to \$570 through August 1, 2014; \$4,810 term bonds at 4.75% due August 1, 2021; and \$6,010 term bond sat 5.0% due August 1, 2027	16,290	Riverside Municipal Improvements Corporation Certificates of Participation:			
\$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B: 4.5% to 5.5% due in annual installments from \$35 to \$190 through September 1, 2013; \$1,135 term bonds at 5.5% due September 1, 2018; and \$3,020 term bonds at 5.625% due September 1, 2027	5,810	\$6,360 1999 Municipal Improvements Corporation Certificates of Participation: 6.0% to 7.6%, due in annual installments from \$310 to \$815 through April 1, 2010			
					<u>\$4,650</u>
\$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A: 3.4% to 4.7% due in annual installments from \$455 to \$780 through August 1, 2014; \$2,565 term bonds at 4.75% due August 1, 2017; \$4,035 term bonds at 4.75% due August 1, 2021; and \$4,870 term bonds at 5.0% due August 1, 2025.	<u>18,985</u>	Remaining certificates of participation debt service payments will be made from unrestricted revenues of the Debt Service Funds. Annual debt service requirements to maturity are as follows:			
Total Redevelopment Agency Bonds	<u>\$109,615</u>	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		2004	\$ 530	\$ 346	\$ 876
		2005	570	308	878
		2006	610	267	877
		2007	660	221	881
		2008	705	172	877
		2009-2010	575	181	1,756
		Total	<u>\$4,650</u>	<u>\$1,495</u>	<u>\$6,145</u>
Remaining debt service will be paid by the Redevelopment Agency Debt Service Funds from future property tax revenues. Annual debt service requirements to maturity are as follows:					

	Principal Outstanding	Remaining notes payable debt service payments will be made from unrestricted revenues of the Redevelopment Agency. Annual debt service requirements to maturity are as follows:
Contracts:		
Enterprise Funds:		
Water stock acquisition rights payable on demand to various water companies, renewable through 2004	\$1,083	
Notes Payable:		
These notes payable have been issued to promote development and expansion within the City's redevelopment areas.		
Redevelopment Agency		
Housing and Community Development fund, non-interest bearing note payable due in annual installments of \$20, through 2005	\$ 40	
Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of \$341, including principal and interest through June 2020	2,987	
HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996 of \$272 to \$425 through August 1, 2015	3,385	
HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of \$110 to \$420 through August 1, 2018	4,285	
Note payable to California Housing Finance Agency, interest at 3%, payable in annual installments of \$88 through 2013, for housing projects.	750	
Total notes payable – Redevelopment Agency	\$11,447	

Redevelopment Agency		Total
Fiscal Year	Principal	Interest
2004	\$ 419	\$ 843
2005	443	819
2006	463	791
2007	496	762
2008	531	730
2009-2013	3,298	3,064
2014-2018	3,321	1,809
2019-2023	1,197	947
2024-2028	1,279	430
Total	\$11,447	\$10,195

Notes Payable:	Principal Outstanding
Sewer Fund	
Sewer Fund Loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of \$339,474, beginning January 29, 2003 through January 29, 2022	\$ 5,153
Sewer Fund Loan from State of California for Headworks project, 1.803%, payable in net annual installments of \$477,387, beginning November 6, 1999 through November 6, 2018	6,371
Total loans payable	\$11,524

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer Fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Sewer Fund	
		Interest	Total
2004	\$ 576	\$ 240	\$ 816
2005	589	227	816
2006	601	215	816
2007	613	203	816
2008	625	191	816
2009-2013	3,318	762	4,080
2014-2018	3,668	412	4,080
2019-2022	1,534	299	1 833
Total	<u>\$11,524</u>	<u>\$2,549</u>	<u>\$14,073</u>

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation. The assets acquired through capital leases are as follows:

Asset	Governmental		Business-Type	
	Activities		Activities	
Buildings	\$ 8,660		\$868	
Equipment	804		-	
Subtotal	9,464		868	
Less: Accumulated Depreciation	(1,174)		(51)	
Total	<u>\$ 8,290</u>		<u>\$817</u>	

The future minimum lease obligations as of June 30, 2003 were as follows:

Years Ending June 30,	Governmental	Business-type
	Activities	Activities
2004	\$1,064	\$ 73
2005	994	73
2006	921	73
2007	881	73
2008	721	92
2009-2011	1,629	177
Total Minimum lease payments	6,210	561
Less: Amount representing interest (rates ranging from 2.5% to 9%)	(693)	(63)
Total capital lease payable	<u>\$5,517</u>	<u>\$498</u>

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2003:

<u>General Long-Term Obligations</u>	
Redevelopment Agency	\$5,931
Riverside Municipal Improvements Corporation	636
Total legally required debt service reserves	<u>\$6,567</u>
Enterprise Funds	
Electric	\$25,786
Water	8,417
Sewer	3,475
Total reserve for revenue bond retirement	<u>\$37,678</u>

Debt service reserves at June 30, 2003 are as follows:

<u>General Long-Term Obligations</u>	
Redevelopment Agency	\$8,394
Riverside Municipal Improvements Corporation	721
General Fund Debt Service	46
Total reserve for debt service	<u>\$9,161</u>

Following are required and actual debt service ratios for the year ended June 30, 2003. The ratio measures operating income in relation to debt service.

	Minimum Debt Service <u>Ratio Required</u>	Actual Debt Service <u>Ratio</u>
Electric Fund	1.25	2.9
Water Fund	1.25	2.6
Sewer Fund	1.25	2.2

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

8. Other Long-Term Obligations

Assessment Districts Bonds (Not obligations of the City)

The payment of these bonds is secured by valid assessment liens upon certain lands in each district and are not direct liabilities of the City. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the City has no duty to pay those delinquencies out of any other available funds. The City acts solely as an agent for those paying assessments and the bondholders. Collection of property assessments and payment of the Assessment District Bonds are reflected only in the Agency Funds. The Assessment District Bonds applicable to this category outstanding at fiscal year end were:

\$30,795 1989 Improvement Bonds, Canyon Springs
Assessment District Refunding Bonds: 6.9% to 7.35%
due in annual installments from \$1,040 to \$2,745
through September 2, 2011

Principal
Outstanding

\$ 11,280

\$8,946 1991 Bonds of Community Facilities District No.
90-2, Tyler Mall: 5.75% to 6.9%, serial and capital
appreciation bonds due in annual installments from
\$670 to \$1,195 through September 2, 2011

\$ 3,774

\$4,417 1992 Series B Improvement Bonds, Sycamore
Canyon Business Park Assessment District No. 1:
6.5% to 8.5% due in annual installments from \$112
to \$420 through September 2, 2012

2,985

\$6,342 1999 Auto Center Assessment District
Improvement Bonds; 4.3% to 5.4% due in annual
installments of \$137 to \$430 through September 2,
2024

5,905

\$14,325 2001 Highlander CFD 90-1 Refunding Bonds;
3.75% to 5.5% due in annual installments of \$725 to
\$1,355 through September 2, 2015

13,600

\$10,198 2001 Riverwalk Assessment District
Improvement Bonds; 4.0% to 6.375% due in annual
installments of \$208 to \$770 through
September 2, 2026

10,198

\$16,730 2001 Public Financing Authority Refunding
Bonds, Series A (Orangecrest and Mission Grove);
3% to 4.75% due in annual installments from \$800
to \$1,425 through September 2, 2016

15,415

\$1,620 2001 Public Financing Authority Refunding
Bonds, Series B (Orangecrest and Mission Grove);
4.0% to 5.75% due in annual installments from \$80
to \$145 through September 2, 2016

1,510

Total Assessment Districts Bonds

\$64,667

Conduit Debt Obligations

Mortgage Revenue Bonds outstanding of \$27,410 and Industrial Development Revenue Bonds of \$7,000 are not included in the accompanying financial statements. These bonds are special obligations of third parties and payable solely from and secured by a pledge of the receipts received from the acquired mortgage loans and certain other reserve funds and related monies. The bonds are not payable from any other revenues or assets of the City or Redevelopment Agency. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State of California or any political subdivision thereof is pledged to the payment of the principal and interest on the bonds.

9. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Housing and Community Development	\$ 557
	NPDES Storm Drain	244
	Special Capital Improvements	64
	Airport	3,314
	Transportation	364
	Central Stores	3,660
Electric	General	50
RDA – Capital Projects	RDA – Special Revenue	<u>930</u>
		<u>\$9,183</u>

Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	RDA – Capital Projects	\$ 3,679
	RDA – Debt Service	36
Special Gas Tax	General	3
Storm Drain	General	15
Capital Outlay	General	84
Sewer	General	1,204
	RDA – Capital Projects	7,331
	Airport	396
	Refuse	3,268
Workers' Compensation	General	1,283
	RDA – Capital Projects	2,285
Public Liability	Airport	37
RDA – Debt Service	General	229
Electric	General	21
Water	General	<u>62</u>
		<u>\$19,933</u>

<u>Transfers In/Out:</u> <u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General	Electric	\$15,333
	Water	3,182
	Special Designation	1,700
Library	General	2,777
Citrus Grove Management	General	189
RDA – Special Revenue	General	200
	RDA – Capital Projects	109
Storm Drain	General	3
RDA – Debt Service	Housing and Community Development	200
	RDA – Special Revenue	2,697
	RDA – Capital Projects	28
RDA – Capital Projects	RDA – Debt Service	9,659
	Riverside Municipal Improvements Corporation	125
Airport	General	96
Refuse	General	150
Sewer	General	51
		<u>\$36,499</u>

10. Expenses/Expenditures in Excess of Appropriations and Deficit Fund Balances/Retained Earnings

The Special Designations and NPDES Storm Drain Funds incurred \$6 and \$75, respectively, in expenditures against no current year appropriation. These expenditures relate to the writeoff of uncollectible accounts receivable. Allowance for uncollectible accounts is an unbudgeted item.

Deficit fund balance/net assets exist in the NPDES Storm Drain (\$247), the Central Stores (\$1,923), and the Public Liability (\$1,116) funds at fiscal year end. The NPDES Storm Drain fund is fully funded by County receipts. Funds to recover the deficit will be received in the subsequent period. The continuing deficit in the Central Stores fund is being reduced based on a rate increase implemented in a prior year. Management's analysis shows that continuing cost control together with the rate increase will eliminate the deficit over the next few years. The Public Liability fund's claims expense in the current year, including the accrued liability based on the actuary's estimate of future payments on claims, exceeded the charges to other funds in the current year. Rates are adjusted as needed.

11. Litigation

The City is a defendant in various lawsuits arising in the normal course of operations. City management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material affect on the financial position or results of operations of the City. Management also believes that adequate reserves exist in the internal service funds to cover outstanding lawsuits.

On January 1, 2003, the City became a Participating Transmission Owner with the California Independent System Operator (ISO), entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement (TRR) as approved by the Federal Energy Regulatory Commission (FERC). The California Investor Owned Utilities (IOU's), the California Department of Water Resources (CDWR), and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement for filing. The settlement agreement disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. These TRR issues are not expected to be resolved until 2004. If the City does not prevail in this litigation, up to \$5,300 of transmission revenue may have to be refunded to the ISO for the fiscal year ended June 30, 2003.

12. City Employees Retirement Plan

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(B) Funding Policy. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the fiscal year 2002-2003 rate was 0.000% for non-safety employees, and 4.99% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Annual Pension Cost. For 2003, the City's annual pension cost of \$12,196 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% per year compounded annually, attributable to inflation, and (c) 3.5% expected long term inflation. The actuarial value of CalPERS assets was determined using techniques that smooth the affects of short-term volatility in the market value of investments over a four-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends by June 30, 2011.

Three-year trend information for CalPERS:

Fiscal Year <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2001	\$9,027	100%	\$0
2002	8,600	100%	\$0
2003	12,196	100%	\$0

Schedule of funding for CalPERS (unaudited):

<u>Plan</u>	<u>Actuarial Valuation Date</u>	<u>Entry Age Normal Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfund ed) Actuarial Accrued Liability (UAAL)</u>	<u>% Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
Misc.	6/30/00	384,489	517,907	(133,418)	134.7	61,785	(215.9)
Safety	6/30/00	307,349	349,102	(41,753)	113.6	31,902	(130.9)
Misc.	6/30/01	466,437	534,615	(68,178)	114.6	67,342	(101.2)
Safety	6/30/01	346,247	355,583	(9,337)	102.7	36,805	(25.4)
Misc.	6/30/02	498,057	507,610	(9,553)	101.9	72,257	(13.2)
Safety	6/30/02	381,311	328,395	52,916	86.1	41,038	128.9

13. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

The City's Electric Utility has entered into a Power Purchases Contract with the Intermountain Power Agency (IPA) for delivery of electric power. The City's share of IPA power is equal to 7.6%, or approximately 133.7 megawatts, of the generation output of IPA's 1,755 megawatt coal-fueled generating station, located in Central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues and requires payment of certain minimum charges, which are based on debt service requirements. Such payments are considered a cost of production and are quantified below.

Southern California Public Power Authority

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility

participates in projects developed by SCPPA, the Electric Utility is obligated for its proportionate share of the project cost. The projects and the Electric Utility's proportionate share of SCPPA's obligations are as follows:

<u>Project</u>	<u>Percent Share</u>	<u>Entitlement</u>
Palo Verde Nuclear Generating Station	5.40%	11.7MW
Southern Transmission System	10.20%	195.0MW
Hoover Dam Upgrading	31.91%	30.0MW
Mead – Phoenix Transmission	4.00%	12.0MW
Mead – Adelanto Transmission	13.50%	118.0MW

Terms of Take or Pay Commitments

As part of the take or pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Payment for these obligations will be made from operating revenues received during the year that payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. Interest rates on the outstanding debt associated with the take or pay obligations range from 4.1% to 5.7%. The following schedule details the amount of principal and interest which is due and payable by the Electric Utility for each project in the fiscal year indicated.

<u>Fiscal Year</u>	<u>IPA</u>	<u>SCPPA</u>					<u>Total</u>
	<u>Inter- mountain Power Project</u>	<u>Palo Verde Nuclear Generating Project</u>	<u>Trans- mission System Project</u>	<u>Hoover Dam Upgrading</u>	<u>Mead- Phoenix Trans- mission</u>	<u>Mead- Adelanto Trans- mission</u>	
2004	\$ 6,093	\$ 4,320	\$ 6,907	\$ 708	\$ 156	\$ 1,651	\$ 19,835
2005	25,443	4,332	6,724	708	156	1,651	39,014
2006	25,941	1,535	6,968	708	156	1,651	36,959
2007	25,931	1,535	7,192	704	272	2,956	38,590
2008	25,594	1,535	6,693	704	271	2,951	37,748
Thereafter	<u>345,878</u>	<u>9,101</u>	<u>113,491</u>	<u>6,976</u>	<u>3,533</u>	<u>38,001</u>	<u>556,980</u>
Total	<u>\$454,880</u>	<u>\$62,358</u>	<u>\$147,975</u>	<u>\$10,508</u>	<u>\$4,544</u>	<u>\$48,861</u>	<u>\$729,126</u>

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final fiscal year maturities are as follows:

<u>Project</u>	<u>Final Maturity Date</u>
Intermountain Power Project	2024
Palo Verde Nuclear Generating System	2017
Southern Transmission System	2023
Hoover Dam Upgrading	2018
Mead-Phoenix Transmission	2020
Mead-Adelanto Transmission	2020

In addition to debt service, Riverside's entitlement requires the payment for fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for 2002 and 2003 fiscal years are as follows:

<u>Fiscal Year</u>	<u>IPA</u>	<u>PV</u>	<u>STS</u>	<u>MAP</u>	<u>MPP</u>	<u>Hoover</u>	<u>Total</u>
2002	\$17,832	\$2,040	\$1,607	\$209	\$45	\$99	\$21,832
2003	18,819	2,355	1,320	157	44	87	22,782

B. Other Commitments

Power Purchase Agreements:

The City has executed five firm power purchase agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; CDWR; and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the table below.

Minimum Obligations 2003-2004

<u>Supplier</u>	<u>Capacity</u>	<u>Energy</u>	<u>Total</u>
Deseret	\$3,463	\$1,811	\$5,274
CDWR II	505	-	505
CDWR IV	658	-	658
BPA	<u>1,865</u>	<u>-</u>	<u>1,865</u>
	<u>\$6,491</u>	<u>\$1,811</u>	<u>\$8,302</u>

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was

provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, the Electric Utility paid Deseret \$25 million from reserves, which is reflected on the Balance Sheet as Unamortized purchase power. On July 1, 2002, the Electric Utility began to amortize the related price reductions, and will continue to amortize over the remaining term of the agreement using the straight-line method. As of June 30, 2003, unamortized purchased power was \$25,056 and the Electric Utility had recorded amortization of \$3,341.

There are two separate agreements with CDWR. The two agreements, CDWR III and IV are for the purchase of 23 and 30 megawatts of capacity and associated energy from May through October. CDWR III and CDWR IV are for a period of 15 years beginning June 1, 1996, subject to termination.

An agreement with Bonneville Power Administration (BPA) is for a purchase of firm capacity and associated energy of 23 megawatts in the summer and 16 megawatts in the winter for a period of twenty years ending February 1, 2011. A second agreement with BPA was executed in 1996 and is for the purchase of firm capacity (50 megawatts during the summer months and 13 megawatts during the winter months) and associated energy beginning April 30, 1996 for twenty years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 and 15 magawatts, respectively, for the remainder of the second agreement.

On July 8, 2003, and June 6, 2003, the City Council and Public Utilities Board, respectively, adopted the Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy from renewable sources by 2015. The contracts in the following table were executed as part of compliance with this standard. The Electric Utility has agreements with the Automated Power Exchange and Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 13 percent of the retail energy requirements, approximately 10% of the total power supply.

Long-term renewable power purchase agreements:

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost for 2004
Milliken Genco	Landfill Gas	2.5MW	12/31/2007	\$ 1,044
Mid Valley Genco	Landfill Gas	2.5MW	12/31/2007	1,089
Riverside County (Badlands Landfill)	Landfill Gas	1.2MW	10/10/2003	386
Wintec	Wind	1.3MW	4/30/2018	77
Salton Sea	Geothermal	20.0MW	5/31/2013	10,153
Total		27.5MW		\$12,749

Construction Commitments:

As of June 30, 2003, the Electric Utility had major construction commitments of approximately \$3,680 with respect to unfinished capital projects, of which \$1,500 is expected to be funded by others, \$1,100 by bonds and \$1,100 by rates.

As of June 30, 2003, the Water Utility had major construction commitments of approximately \$4,626 with respect to unfinished capital projects, of which \$1,877 is expected to be funded by others and \$2,749 is expected to be funded by bond proceeds.

C. Jointly Governed Organizations

On November 1, 1980, The City of Riverside joined with the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale, Pasadena, and Imperial Irrigation District to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of the Authority is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Authority is governed by a Board of Directors which consists of one representative for each of the members. During the 2003 fiscal year, the Electric Utility paid approximately \$20,324 to SCPPA under various take-or-pay contracts, which are described in greater detail in Note 13A. These payments are reflected as a component of purchased power in the financial statements.

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (Agency) by a Joint Powers Agreement under the laws of the State of California. The city of Anaheim joined the Agency on July, 1 1996. The primary purpose of the Agency is to take advantage of economies of scale resulting from the five cities acting in concert. The Agency has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Agency is governed by a Board of Directors (the Board), which consists of one representative for each of the members. The term of the Joint Powers Agreement is fifty years. On April 5, 2001 the Board placed the Agency in an inactive status, effective June 30, 2001. It can only be reactivated with authorization from the Agency Board.

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, the North Marin Water District, the Northern California Power Agency, the Sacramento Municipal Utility District, and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The City of Santa Cruz joined in 1994, and Trinity Public Utility District joined in 1996, and the cities of Azusa and Victorville joined in 2002. The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena, and the North Marin Water District and Trinity Public Utility District. The Electric Utility's portion of the FARECal debt and utility plant assets is recorded in the accompanying financial statements.

D. Jointly-Owned Utility Project

Pursuant to the Settlement Agreement with Southern California Edison (SCE) dated August 4, 1972, the City was granted the right to acquire a 1.79% ownership interest in San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. Pursuant to the Settlement Agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. SCE and the City entered into the SONGS Participation Agreement which sets forth the terms and conditions under which the City, through the Electric Utility, participates in the ownership and output of SONGS. Other participants in this project include SCE, 75.05 percent; San Diego Gas and Electric Company, 20.00 percent; and the City

of Anaheim, 3.16 percent. Maintenance and operation of SONGS remains the responsibility of SCE, as operating agent for the City.

There are no separate financial statements for the jointly-owned utility plant since each participant's interest in the utility plant and operating expenses is included in their respective financial statements. The Electric Utility's share of the capitalized construction cost and operating expenses is included in the Electric Utility's financial statements. As of June 30, 2003, Riverside's 1.79% share of the capitalized construction costs for SONGS totaled \$128,483 with accumulated depreciation of \$87,309. The Electric Utility made provisions during fiscal year 2003 for nuclear fuel burn of \$1,173 and for future decommissioning cost of \$1,581 (See Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

As a participant in the SONGS, the Electric Utility could be subject to assessment of additional insurance premiums in the event of a nuclear incident at San Onofre or any other licensed reactor in the United States.

E. Contingencies

To comply with certain State and local regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. There is the potential for these estimates to change due to inflation, deflation, technology, or change in application laws or regulations. To fund the cost, the City imposed a landfill capping surcharge on customers effective August 1, 1988. The minimum unamortized estimated cost of \$5,551 is recorded as a deferred charge in the accompanying financial statements of the Refuse Fund and is being amortized on a straight line basis over the remaining post closure period, currently 28 years. The estimated cost of meeting the State's requirements was increased by 2.2 million during 2002 based on the engineer's annual review of closure and post-closure maintenance costs. Additionally, payments made during the year of \$96 reduced that liability to its

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

(amounts expressed in thousands)

June 30, 2003 balance of \$4,268 as reflected in the balance sheet of the Refuse Fund.

Note 14. Restatement of Net Assets/Fund Balance:

The City's Net Assets for Governmental Activities and Fund Balance at June 30, 2002 have been restated to record additional sales tax revenue due from the State, elimination of deferred revenue associated with a capital lease receivable and reversal of a duplicate entry for land recorded in capital assets.

The restatements had the following effect on the Net Assets for Governmental Activities:

Beginning, as previously reported	\$521,262
Accrued sales tax receivable	5,784
Elimination of deferred revenue associated with a capital lease receivable	27,925
Duplicate entry for land	(2,270)
Beginning, as restated	<u>\$552,701</u>

The restatements had the following effect on Beginning Fund Balance:

General Fund:

Beginning, as previously reported	\$74,776
Accrued Sales Tax Receivable	4,778
Beginning, as restated	<u>\$79,554</u>

The restatements had an immaterial effect on the Statement of Activities and Statement of Revenues, Expenses and Changes in Fund Balance for the year ended June 30, 2002.

Note 15. Subsequent Events

Subsequent to June 30, 2003, four bond issues were completed to take advantage of improved interest rates and/or realize debt service savings. The bond issues were as follows:

On July 8, 2003, the Redevelopment Agency issued the Lease Revenue Refunding Bonds 2003 Series A for \$26,255 and 2003 Series B for \$4,810 to

advance refund \$27,925 of the 1994 Downtown/Airport Project Area, Series A and B Bonds;

On July 29, 2003, the Redevelopment Agency issued the Series 2003 Merged Project Area Tax Allocation and Refunding Bonds totaling \$40,435 to advance refund \$29,575 of the 1993 Tax Allocation Refunding Bonds, Merged Project Area and provide \$10,805 for new projects;

On July 30, 2003, \$1,200, of Special Tax Bonds (no City obligation) were sold for the Sycamore Canyon Community Facilities District 92-1 to acquire or construct certain environmental improvements;

On July 31, 2003, the Electric Utility issued the 2003 Electric Refunding Revenue Bonds totaling \$75,405 to advance refund \$75,410 of the 1993 Electric Refunding Revenue Bonds and \$3,310 of the 1994 FARECal Bonds.